

## Message Text

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C O N F I D E N T I A L STATE 143269

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E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT:OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,  
JUNE 6, 1978

1. ASEAN-EC JOINT STUDY GROUP MEETING  
(LIMITED OFFICIAL USE)

FURTHER INFORMATION TO THAT PROVIDED LAST WEEK ON THE  
EC-ASEAN JOINT STUDY GROUP MEETING INDICATES THAT THE EC  
UNVEILED AN OFFER FOR SUBSTANTIALLY EXPANDED REGIONAL  
DEVELOPMENT COOPERATION. PREVIOUS FUNDING HAS BEEN  
LIMITED TO ASSISTANCE TO SOME REGIONAL RESEARCH INSTITUTES  
AND CONTRIBUTIONS TO THE ADB TECHNICAL ASSISTANCE SPECIAL  
FUND. FOR 1978, HOWEVER, THE EC IS PREPARED TO PROVIDE  
FROM 3.5 TO 5 MILLION DOLLARS FOR ASEAN REGIONAL  
DEVELOPMENT IF SOUND PROJECTS CAN BE DEVELOPED. PROJECT  
IDEAS RELATING TO FISHERIES, POST-HARVEST TECHNOLOGY,  
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TIMBER EXPLOITATION AND PROCESSING AND TOURISM WERE  
SUGGESTED. A COMMISSION DELEGATION WILL VISIT ASEAN IN  
JUNE TO DISCUSS THIS FURTHER. COMMISSION REPS WERE  
RATHER COOL TO AN ASEAN IDEA FOR ESTABLISHING AN ASEAN-EC  
DEVELOPMENT FUND, BUT WILL RESERVE A DECISION PENDING  
RECEIPT OF AN OFFICIAL PROPOSAL FROM ASEAN.

IT WAS ALSO REPORTED THAT THE TENTATIVE AGENDA FOR THE  
EC-ASEAN MINISTERIAL IN NOVEMBER INCLUDE INVESTMENT

PROMOTION, ASEAN INDUSTRIAL PROJECTS (THE EC MAY CONSIDER FINANCING SOME FEASIBILITY STUDIES), RAW MATERIALS, TRANSFER OF TECHNOLOGY, TRAINING, DEVELOPMENT COOPERATION, TRADE PROMOTION AND SCIENTIFIC AND CULTURAL EXCHANGE.

EC COMMISSION SOURCES MAINTAIN THAT THE EC IS NOT ENTERTAINING ASEAN'S REQUEST TO CONSIDER REGIONAL STABEX PROPOSAL ALTHOUGH IT CONTINUES TO APPEAR ON THE AGENDAS OF VARIOUS ASEAN-EC MEETINGS. THE COMMISSION DID AGREE AT THE BANGKOK JOINT STUDY GROUP MEETING TO PARTICIPATE WITH ASEAN REPS IN A WEEK-LONG WORKSHOP IN SEPTEMBER TO EXAMINE TECHNICAL ASPECTS OF STABEX OPERATIONS. COMMISSION OFFICIALS, HOWEVER, CONTEND THE OFFER TO PARTICIPATE WAS MADE ON THE GROUNDS THAT ASEAN MIGHT ADOPT THE EC'S EARLIER SUGGESTION THAT ASEAN SET UP A STABEX SCHEME BASED SOLELY ON INTRA-ASEAN FINANCING. THE OFFER, THEY SAY, SHOULD BE VIEWED AS A COMMISSION PLOY TO GRACEFULLY DODGE ASEAN'S PERSISTENT DEMANDS ON THIS SUBJECT.

ON THE WHOLE, THE COMMISSION DEL CONSIDERED THE ASEAN GROUP AS SERIOUS AND PRAGMATIC COMPARED TO SOME EC ENCOUNTERS WITH THIRD WORLD GROUPS.

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## 2. JAPAN-ASEAN RELATIONS (LIMITED OFFICIAL USE)

A THREE MAN GOJ DELEGATION FROM FONMIN, MITI AND DEPARTMENT OF TOURISM CURRENTLY MAKING THE ROUNDS OF ASEAN CAPITALS IS REPORTEDLY INFORMING ASEAN OFFICIALS THAT THE GOJ HAS DECIDED TO ESTABLISH A PERMANENT JAPAN-ASEAN EXHIBITION CENTER IN TOKYO, PROBABLY BEFORE THE END OF THIS YEAR.

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IN OTHER DEVELOPMENTS, ASEAN AND GOJ TRADE OFFICIALS HELD TRADE TALKS IN TOKYO ON MAY 30-JUNE 1, INCLUDING BOTH BILATERAL SESSIONS AND ASEAN-JAPAN SESSIONS. THE ASEAN REPS REQUESTED CONCESSIONS ON A WIDE RANGE OF PRODUCTS UNDER EITHER MTN OR GSP. GOJ SOURCES SAID THE GOJ MADE IT CLEAR THAT THE CONCESSIONS COULD NOT BE ON A REGIONAL BASIS, BUT INDICATED THAT THE ASEAN REQUESTS WOULD HAVE SOME IMPACT ON THE JAPANESE MTN POSTURE.

UNDER SECRETARY COOPER REITERATED US OPPOSITION TO AN ASEAN STABEX IN A RECENT CONVERSATION WITH JAPANESE DEPUTY FOREIGN MINISTER MIYAZAKI. COOPER SAID THAT IMF COMPENSATORY FINANCING FACILITY SHOULD BE ABLE TO MEET

ASEAN NEEDS. MIYAZAKI NOTED THAT GOJ ONLY HAD THIS

PROPOSAL UNDER STUDY.

3. JAPANESE AID INCREASE (LIMITED OFFICIAL USE)

A CLARIFICATION OBTAINED BY EMBASSY TOKYO ON THE OFFICIAL INTERPRETATION OF THE GOJ'S COMMITMENT TO DOUBLE ITS AID IN THREE INSTEAD OF FIVE YEARS INDICATES THAT IT REFERS TO A DOUBLING OF ODA DISBURSEMENTS CALCULATED ON FY 1976 BASE AND IN DOLLAR TERMS RATHER THAN ON AN FY 1977 BASE AND IN YEN TERMS. THIS IS A MORE LIMITED COMMITMENT THAN WE HAD PREVIOUSLY UNDERSTOOD  
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ON THE BASIS OF FOREIGN MINISTER SONODA'S REMARKS, BUT EMBASSY TOKYO NOTES THAT THE GOJ, IN ANY EVENT, IS COMMITTED TO A MAJOR INCREASE IN ODA AND THAT THERE IS LITTLE TO BE GAINED BY QUIBBLING OVER THE METHOD OF CALCULATION.

4. HUMAN RIGHTS GUIDELINES FOR OPIC PROJECTS  
(CONFIDENTIAL)

IN JUNE 2 MEETING CHRISTOPHER GROUP DISCUSSED A PROPOSAL OF PROCEDURES FOR REVIEWING OPIC PROJECTS, BUT IT FAILED TO REACH A DECISION. BEFORE THE MEETING OPIC HAD WORKED OUT PROPOSAL WITH CHRISTOPHER'S STAFF AND OTHERS THAT ITS PROJECTS WOULD BE APPROVED ROUTINELY (WITHOUT HUMAN RIGHTS WORKING GROUP SCRUTINY) UNLESS THERE IS PATTERN OF "EXTREME" VIOLATIONS OF HUMAN RIGHTS AND REPEAT AND SIGNIFICANT DIRECT HOST GOVERNMENT INVOLVEMENT IN PROJECT. SUFFICIENT OPPOSITION WAS EXPRESSED AT THE MEETING, INCLUDING UNEXPECTED RESERVATIONS BY L, TO PREVENT ADOPTION OF THIS FORMULATION. INSURANCE OF ONE PROJECT IN EA, AN EXPANSION BY PHELPS DODGE IN THE PHILIPPINES, IS BEING HELD UP. WE ARE WORKING WITH OPIC AND EB ON NEXT STEPS TO BREAK THE IMPASSE ON OPIC PROJECTS.

5. RESULTS OF THE OECD ECONOMIC POLICY COMMITTEE TO FORM BASIS OF MINISTERIAL MEETING (CONFIDENTIAL)

EPC CHAIRMAN (CEA CHAIRMAN SCHULTZE) CONCLUDED THAT PROSPECTS FOR THE OECD ECONOMIES UNDER CURRENT POLICIES WERE UNSATISFACTORY BECAUSE OF INADEQUATE GROWTH, CURRENT ACCOUNT IMBALANCES AND INFLATIONARY PRESSURES. WEAK INVESTMENT WOULD SLOW POTENTIAL REAL GROWTH AND  
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HIGH EMPLOYMENT AND INFLATION WOULD PROGRESSIVELY UNDERMINE POLITICAL AND SOCIAL STABILITY. PRESSURES FOR DEFENSIVE MEASURES, ESPECIALLY PROTECTIONISM, WOULD MOUNT AND THEREBY UNDERCUT ECONOMIC EFFICIENCY.

OECD COUNTRIES SHOULD UNDERTAKE CONCERTED ACTION TO OBTAIN MODERATE, SUSTAINED GROWTH OVER THE MEDIUM TERM. THESE ACTIONS CALL FOR (1) A NUMBER OF COUNTRIES SUCH AS THE FRG, JAPAN AND CANADA, BUT EXCLUDING THE US, STIMULATING THEIR ECONOMIES TO OBTAIN HIGHER GROWTH RATES; (2) ENERGY CONSERVATION AND SUPPLY-RAISING PROGRAMS, ESPECIALLY BY THE US WHICH NEEDS SUCH PROGRAMS QUICKLY TO ALLEVIATE ITS CURRENT ACCOUNT DEFICIT AND TO PROMOTE EXCHANGE MARKET STABILITY; AND (3) COOPERATION ON MTN, AVOIDANCE OF TRADE RESTRICTIONS AND PROMOTION OF STRUCTURAL ADJUSTMENTS. THESE CONCLUSIONS WILL BE DISCUSSED AT THE JUNE 14-15 OECD MINISTERIAL MEETING.

6. OECD MINISTERIAL TO DEAL WITH NORTH-SOUTH ISSUES  
(LIMITED OFFICIAL USE)

NEXT TO "CONCERTED ACTION" AMONG DEVELOPED COUNTRIES, THE OTHER MAJOR ITEM ON THE OECD MINISTERIAL AGENDA IS "THE GROWING INTERDEPENDENCE OF THE WORLD ECONOMY WITH SPECIAL REFERENCE TO THE DEVELOPING COUNTRIES." THE MAIN THEME THAT EMERGES FROM THE SECRETARIAT DOCUMENTATION IS THAT NORTH-SOUTH RELATIONS SHOULD BE VIEWED WITHIN THE FRAMEWORK OF A COHERENT APPROACH RELATED TO THE MANAGEMENT OF INTERDEPENDENCE, STRUCTURAL CHANGE IN AREAS OF MUTUAL INTEREST AND THE GLOBAL APPROACH TO DEVELOPMENT COOPERATION. CRUDELY TRANSLATED THIS MEANS THAT THE PROMOTION OF DEVELOPMENT IN THE DEVELOPING COUNTRIES THROUGH INCREASED CAPITAL FLOWS SHOULD BE VIEWED AS AN INSTRUMENT TO HELP THE DEVELOPED COUNTRIES OUT OF THEIR ECONOMIC DOLDRUMS. SOMETHING SIMILAR ALSO SEEMS TO BE EMERGING AS THE CENTRAL THEME  
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OF THE G-77 FOR UNCTAD V TO BE HELD IN MANILA NEXT YEAR.

7. EFFECTS OF YEN APPRECIATION ON JAPANESE EXPORTS  
(UNCLASSIFIED)

A RECENT SURVEY BY THE JAPAN EXTERNAL TRADE ORGANIZATION (JETRO) CONCLUDES THAT SOME PRODUCTS SUCH AS AUTOMOBILES, CAMERAS, MOTORCYCLES, AND AUDIO EQUIPMENT CONTINUE TO BE COMPETITIVE ON WORLD MARKETS AT 220 YEN TO THE DOLLAR, WHILE OTHERS, SUCH AS CHEMICALS, TEXTILES, SHIPS, SUNDRIES, POTTERY, AND CERAMICS HAVE LOST COMPETITIVENESS AT THAT RATE. REPORT FINDS THAT IN ASIAN MARKETS, EXCEPT FOR CARS AND SOME STEEL PRODUCTS,

JAPANESE GOODS HAVE BEEN LOSING OUT TO EXPORTS FROM KOREA, TAIWAN, THE US, AND EUROPE. AMONG THOSE MENTIONED AS LOSING OUT ARE MACHINE TOOLS, PUMPS, AGRICULTURAL MACHINERY, AND BASIC PLASTIC MATERIALS.

8. COMMODITIES (LIMITED OFFICIAL USE)

A. TIN

AN EB TIN POLICY EXPERT, WALTER LENAHAAN, IS STOPPING IN KUALA LUMPUR ON JUNE 8-9, ENROUTE TO THE JUNE 12-16 MEETING OF THE INTERNATIONAL TIN COUNCIL'S ECONOMIC AND PRICE REVIEW PANEL MEETING IN BANGKOK JUNE 12-16. THE PRIMARY FOCUS OF LENAHAAN'S MALAYSIAN VISIT IS TO EXCHANGE VIEWS WITH THE EMBASSY, BUT HE WILL CONSULT INFORMALLY ON TIN POLICY WITH GOM OFFICIALS AS WELL. MEANWHILE, A TIN PRODUCERS GROUP, PERHAPS HEADED BY INDONESIAN MINISTER OF MINES AND ENERGY SOEBROTO, IS PLANNING A LOBBYING TRIP TO WASHINGTON LATE THIS MONTH OR EARLY NEXT MONTH. IN ADDITION TO INDONESIA, CONFIDENTIAL  
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MALAYSIA AND THAILAND AND POSSIBLY AUSTRALIA, NIGERIA AND ZAIRE WILL BE REPRESENTED. THEY HOPE TO MEET WITH DICK COOPER AND FRED BERGSTEN.

B. ZINC

THE US INTERNATIONAL TRADE COMMISSION, ON JUNE 1, MADE A NEGATIVE FINDING ON AN ESCAPE CLAUSE PETITION FILED BY THE ZINC INDUSTRY, CONCLUDING BY A VOTE OF FIVE TO ONE, THAT UNWROUGHT ZINC IMPORTS ARE NOT, REPEAT NOT, A SUBSTANTIAL CAUSE OF SERIOUS INJURY, OR THREAT THEREOF, TO THE DOMESTIC INDUSTRY. THIS ACTION EASES CONCERNS AMONG FOREIGN ZINC PRODUCERS, LARGELY LIMITED TO AUSTRALIA AMONG EA COUNTRIES, THAT THE USG MIGHT TAKE RESTRICTIVE ACTION ON ZINC IMPORTS IN WHAT IS ALREADY A DEPRESSED WORLD MARKET.

C. COCOA

US PROPOSALS FOR REVISION OF THE 1975 INTERNATIONAL COCOA AGREEMENT HAVE BEEN CIRCULATED IN PREPARATION FOR A JUNE 12-16 MEETING IN LONDON. THE US PROPOSALS CALL FOR A BUFFER STOCK ARRANGEMENT AS THE ONLY MEANS OF PRICE STABILIZATION IN CONTRAST TO THE EXISTING AGREEMENT WHICH DEPENDS PRIMARILY ON EXPORT CONTROLS. THE US HAS BEEN ENCOURAGED BY SOME OF THE INITIAL REACTIONS TO ITS LATEST PROPOSALS. SHOULD THE US ULTIMATELY BE ABLE TO ACCEDE TO A REVISED COCOA AGREEMENT, IT WOULD BE FURTHER EVIDENCE OF THE MORE

FORTHCOMING USG APPROACH TO COMMODITIES.

9. ADB PROPOSES REACTIVATION OF LOAN TO VIETNAM  
(CONFIDENTIAL)

ADB MANAGEMENT CIRCULATED TO THE BOARD A PROPOSAL TO  
REACTIVATE THE SAIGON POWER PROJECT LOAN. THE BANK HAS  
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4 MILLION DOLLARS REMAINING TO DISBURSE OF THIS SOFT  
LOAN. MANAGEMENT'S DECISION WAS TRIGGERED BY THE SRV'S  
PAYMENT OF ITS OUTSTANDING ARREARAGES. MANAGEMENT  
PREVIOUSLY HAD COOPERATED WITH US IN DELAYING BOARD  
CONSIDERATION OF LOAN REACTIVATION BECAUSE OF OUR  
CONCERN OVER CONGRESSIONAL REPERCUSSIONS. THE BANK,  
HOWEVER, FELT IT COULD WAIT NO LONGER BECAUSE OF  
INTENSE PRESSURE FROM OTHER MEMBERS TO RESUME LENDING  
AND THE SRV'S DECISION TO PAY UP ITS OBLIGATION. THE  
BANK IS ALSO CONCERNED OVER SRV CHARGES THAT THE BANK  
HAS ACTED IN "BAD FAITH". THE BOARD IS SCHEDULED TO  
CONSIDER THE PROPOSAL ON JUNE 29 AT WHICH TIME IT WILL  
LIKELY BE APPROVED. PURSUANT TO THE PRESIDENT'S  
PLEDGE, THE US WILL VOTE AGAINST THE LOAN. TREASURY  
PLANS TO INFORM CONGRESSIONAL LEADERS OF THIS PENDING  
BOARD ACTION. THE BANK HAS ALSO INDICATED THAT IT  
WOULD SEND LOAN MISSIONS TO THE SRV TO LOOK INTO THE  
REACTIVATION OF THREE SRV IRRIGATION LOANS. THESE LOANS  
WILL NOT LIKELY BE READY FOR BOARD ACTION THIS YEAR.

10. POSSIBLE YUGOSLAVIAN MEMBERSHIP IN THE ADB  
(LIMITED OFFICIAL USE)

AMEMBASSY BELGRADE HAS NO OBJECTION TO GOY MEMBERSHIP  
BUT NOTES THAT NO EXCEPTIONS SHOULD BE MADE FOR THE GOY.  
YUGOSLAVIA SHOULD BE EXPECTED TO CONTRIBUTE IN HARD  
CURRENCY AND MAKE FUNDS AVAILABLE FOR PROCUREMENT FROM  
ALL MEMBER COUNTRIES. THE GOY IS PRIMARILY INTERESTED  
IN THE ADB BECAUSE OF ITS PROCUREMENT OPPORTUNITIES AS  
WELL AS ITS DESIRE TO ASSIST ASIAN COUNTRIES. THE BANK  
BY-LAWS COULD CREATE A STUMBLING BLOCK, HOWEVER,  
BECAUSE ONLY NON-REGIONAL "DEVELOPED" COUNTRIES MAY  
JOIN THE ADB. THE GOY CONSIDERS ITSELF A DEVELOPING  
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COUNTRY AND WILL LIKELY SEEK A COMPROMISE ON THIS  
REQUIREMENT IN ORDER TO PRESERVE ITS ROLE IN THE G-77.

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